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Economic Intelligence Weekly

2/8/73

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SECRET**ECONOMIC INTELLIGENCE WEEKLY****Notes****The Soviet Economy at Midyear**

Moscow's midyear economic report charts a mild recovery from 1972's poor performance, although the shortages of agricultural raw materials continue to limit gains in industrial output. Civilian industrial production grew by an estimated 5.7% in January-June, much less than the recovery achieved in 1970 after the last bad harvest. Completions of new plants increased 13% in the first half of 1973, compared with the first half of 1972. Prospects for 1974 are brighter because of the performance of the investment sector and encouraging reports on the 1973 harvest. Both crop and livestock production should rebound, ensuring a much larger flow of raw materials from the farms next year. [REDACTED]

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International Monetary Developments

The dollar has fluctuated narrowly on international money markets in the past week. Extremely tight credit conditions in West Germany late last week necessitated substantial central bank intervention, especially by the Bundesbank, to keep the dollar from weakening further and to keep the European joint float intact. Under strong urging from other capitals, the Bundesbank then eased money market rates and the upward pressure on the mark. Nevertheless, the dollar rallied only briefly and fell back by mid-week, as expectations of renewed credit tightness in West Germany kept money markets nervous. Pressure on the pound also remained strong. The Bank of England is keeping interest rates high and has intervened substantially to keep the pound from weakening further. [REDACTED]

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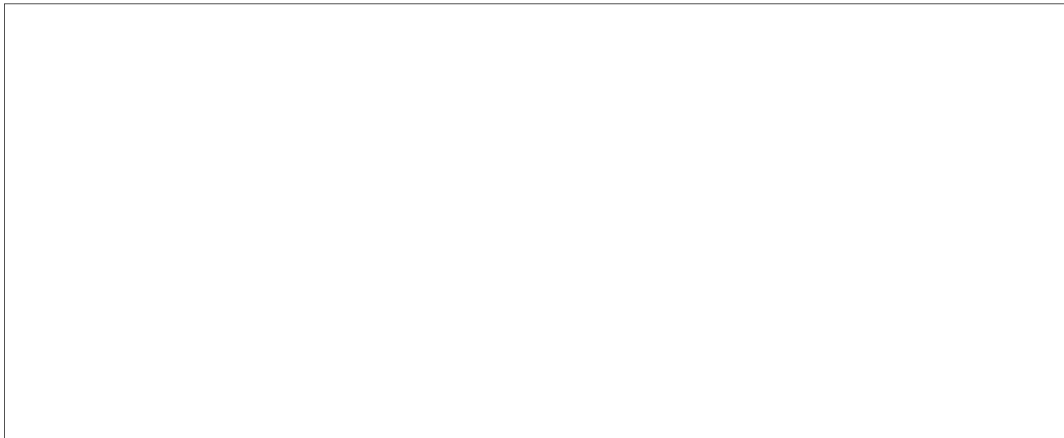
Brazil Halts New Beef Export Commitments

To cope with domestic shortages and rising prices, Brasilia has temporarily banned beef exports beyond amounts already contracted. Shipments this year probably will fall substantially below the record 170,000 tons sold in 1972, and Brasilia plans a further cut of at least 10% next year. The fourth largest beef exporter, Brazil accounted for 5% of world sales last year. [REDACTED]

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Offshore Refining for US Market No Longer Attractive

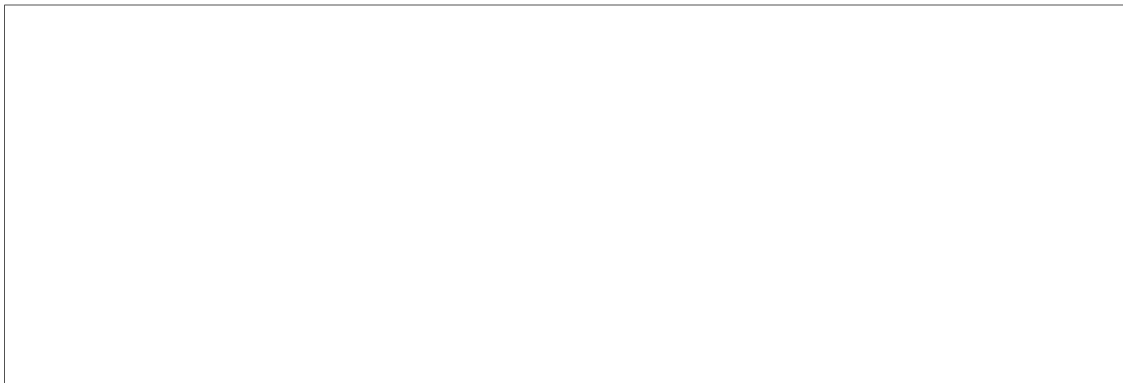
The recent liberalization of US crude oil import policy and new US restrictions on product imports have largely removed the incentive to build new offshore refineries. Industry sources estimate that products refined in the United States from Persian Gulf crude oil now have a 52-cent-a-barrel edge over those refined in the Bahamas. If the United States had ports capable of handling very large crude carriers, this edge could be increased. At least one international consortium that had been planning a new Caribbean refinery has scrapped its plans and is now looking for an East Coast site.

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Possible GM Participation in GDR-Czech Car Project

To the surprise of the East Germans, General Motors has expressed an interest in participating in a joint automobile-manufacturing venture between the GDR and Czechoslovakia. GM told the East Germans that a proposal would be made when detailed specifications of the car are available. Production is planned to begin in 1980, with East Germany making gear boxes and front axles and Czechoslovakia producing engines and rear axles. If GM submits a proposal, it will offer to design and equip a body plant. In return, GM will receive a portion of the finished product for export.

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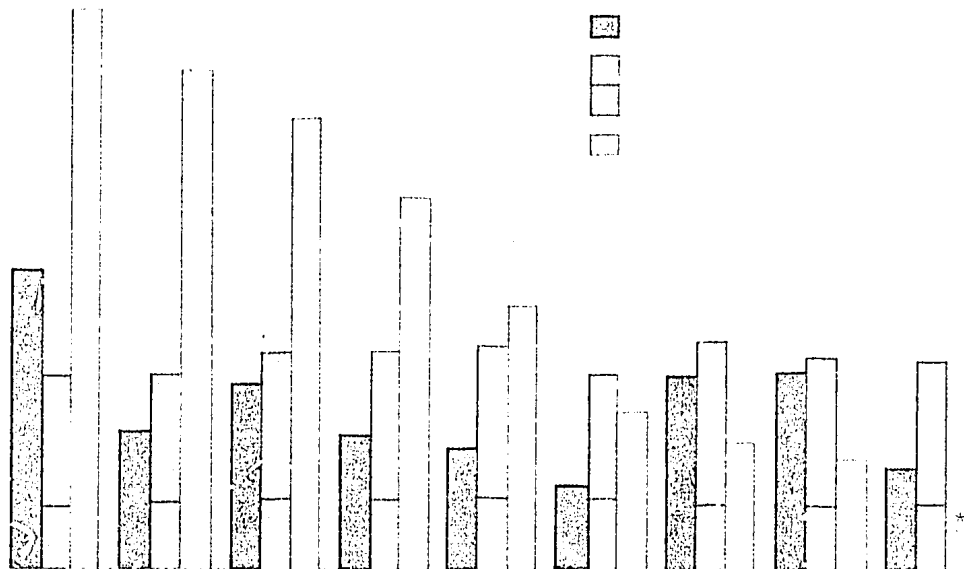
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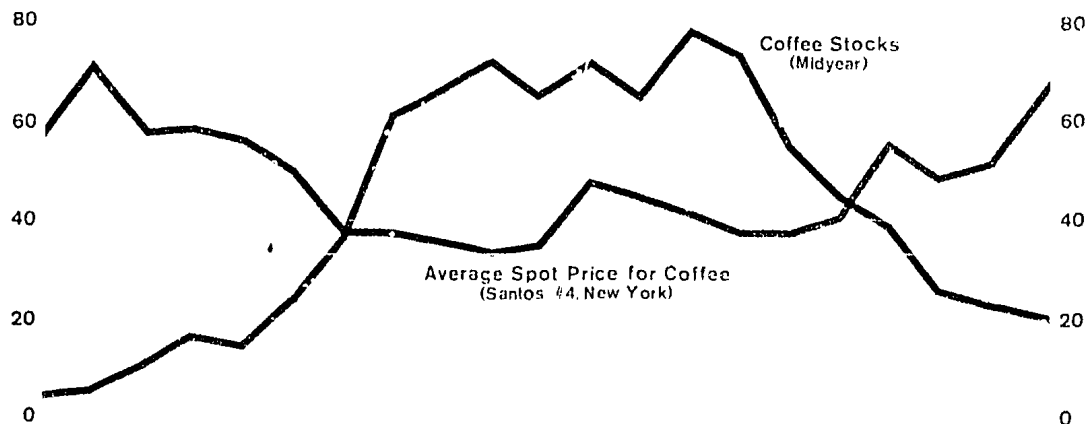
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*Assuming drawings on private inventories and imports.

Million Bags
100

US Cents Per Pound
100



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Articles

World Coffee Prices Expected to Rise Further

World coffee prices -- now at an 18-year high -- should jump further when the market learns that Brazil's 1973 crop will be even poorer than previously expected. Because of frost damage, excessive rain, and leaf rust disease, the harvest now under way probably will total only 12 million to 14 million bags. This crop is about one-half of normal Brazilian output and considerably below the 16 million to 18 million bags previously forecast. Expected supply shortages already have boosted current coffee prices more than 35% above the 1972 average.

Brazil's production this year will fall at least 13 million bags short of total requirements for export and domestic consumption. Because Brazil has been drawing heavily on government coffee stocks for several years, they now amount to only 14 million bags, compared with 70 million bags in the mid-1960s. These stocks will fall to critically low levels by next June -- the end of the current coffee year -- even though Brasilia can be expected to draw on private inventories and import coffee to help meet requirements.

Other producers will be hard-pressed to cover the shortfall in Brazil's crop, which normally supplies more than one-third of the world's coffee. Production outside Brazil is not expected to increase much this year, and government stocks in other exporting countries stand at a mere 6 million bags or so. Just to maintain current consumption levels, world coffee stocks may have to be cut from their already inadequate level of 20 million bags to less than 10 million bags by mid-1974.

Stocks probably will remain at extremely low levels for several years, buoying up coffee prices throughout the period. Although Brazil has been expanding coffee plantings since 1969, production cannot recover sufficiently to permit much stock rebuilding until 1975 at the earliest. Moreover, the spread of leaf rust, which hit this year's crop harder than expected, could delay recovery. Substantial stock rebuilding by other producers also appears unlikely in the years just ahead. As long as inventories remain small, world supplies will be extremely vulnerable to crop failure in any major producing country.

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SECRET**Worldwide Grain Developments*****USSR***

The continued delay in the harvest as a result of poor weather is introducing increasing uncertainty in the outlook for Soviet grain production. By 30 July, threshing had been completed on less than 20% of the area sown to grains, compared with a long-run average of 26%. A revised grain production estimate will be included in the next week's issue of the EIW. [REDACTED]

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India

Since mid-June, New Delhi has purchased about 1.5 million tons of wheat and coarse grains, principally from the United States, according to the India Supply Mission in Washington. This quantity is still far short of the 4.5 million tons that it hopes to obtain before the fall harvest begins in late October. Meanwhile, India is experiencing another erratic monsoon. Below-normal rainfall has been reported in some important foodgrain producing areas in the southeast; drought since late June in two northern states has caused substantial damage to recently planted crops. Because the current monsoon season lasts through September, it is still too early to forecast the fall harvest. [REDACTED]

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Bangladesh-USSR

Last week the USSR signed an agreement that will provide Bangladesh with 200,000 tons of wheat immediately. Dacca is supposed to repay the Soviets with an equal amount of foodgrains before March 1974. The US embassy in Dacca has learned that the wheat being supplied by the Soviets was purchased from Canada and Australia, not from the United States as reported earlier. [REDACTED]

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SECRET***Hungary***

Officials are predicting a bumper harvest of high-quality wheat. If the estimated crop of 4.1 million tons is achieved, Hungary could export 300,000 to 500,000 tons in FY 1974, up from about 200,000 tons last year. [REDACTED]

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Yugoslavia

Officials are estimating the wheat crop at 4.4 million to 4.9 million tons, compared with 4.2 million tons forecast earlier. If the crop is this large, Yugoslavia should be able to cut imports below the 600,000 tons planned for 1973. [REDACTED]

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Albania

Because of an extended drought, wheat yields have been reduced and the corn crop is threatened. As a result, wheat import requirements in FY 1974 are likely to be double last year's estimated 40,000 tons. [REDACTED]

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Plans to Strengthen the EC Computer Industry

Siemens of West Germany, Compagnie Internationale pour l'Informatique of France, and Phillips of the Netherlands have agreed to put their computer production, sales, and service organizations under the control of a new jointly owned company, Unidata. The merger is widely supported in European government circles because of concern about IBM's domination of the computer market.

Proposed EC policy on the computer industry has been outlined in a draft memorandum to be submitted soon to the full EC Commission. The basic aim is to increase substantially the share of the EC market held by European firms. The methods proposed in the memorandum include cartelization of European computer firms, government procurement practices that would favor them, development of exclusive EC technical standards, government subsidization of the industry, and the limitation of US firms to minority positions in US-European joint ventures. Such measures would be detrimental to US interests and appear to be in conflict with the Treaty of Rome's Article 58, which calls for equal treatment for all companies incorporated in an EC member state.

The Community is unlikely to adopt a policy incorporating all of these proposals. But many European officials clearly are dissatisfied that so important an industry is dominated by a foreign firm, and reactions to the proposed policy have been generally favorable in the member capitals. France, West Germany, and the United Kingdom already pursue some measures that are similar, in varying degrees, to the proposed ones.

The ability of a company such as Unidata to expand the Community's share of the European computer market depends heavily on the willingness of its national units to cooperate closely. To gain much ground against IBM, even during the long term, Unidata would have to develop or acquire a relatively independent technology and build a comparable reputation for providing high-quality service and software.

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Chinese Petroleum Exports to Expand

China recently has purchased more than 100 onshore drilling rigs from Romania and three offshore rigs from Japan. Purchases of oil exploration equipment from the United States and Canada are imminent. These transactions, along with current improvements of petroleum handling facilities at North China ports, demonstrate Peking's interest in expanding petroleum output and could lead to a sizable expansion of crude oil exports in a few years.

Previous projections of Chinese crude oil output and consumption needs pointed to exports of about 10 million tons in 1975. Japan, which currently imports more than 200 million tons annually, will continue to be the main customer. Earlier this year Peking agreed to supply the Japanese with 1 million tons of crude oil in 1973, with possibly 3 million tons to follow in 1974. Additional quantities would be welcomed by the Japanese.

Although the purchase of offshore rigs reveals a heightened interest in offshore exploration, the Chinese apparently are in no hurry to develop offshore deposits. For some time, increases in production will come from further development of onshore deposits. This fact and China's reluctance to accept foreign participation in its economic undertakings lie behind the continuing refusal of Japanese and US proposals for joint offshore exploration.

Crude oil, nevertheless, remains attractive as a source of foreign exchange to help pay for China's rising imports. At current export prices, 10 million tons of crude oil would be worth almost \$300 million. By the late 1970s, still larger exports at higher prices should make oil even more important in Chinese export earnings.

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SECRET**EC Efforts to Hammer Out a Common Energy Policy**

Recent proposals of the European Community's Energy Commission reflect fears of further dislocations arising from increased US demand for oil products. The proposals would increase Community influence over the member countries' petroleum affairs.

The most important proposal would establish a committee to coordinate all petroleum marketing activities within the Community. The committee would be empowered to hold discussions with member governments on oil supplies and with oil companies on imports, exports, stocks, sources of supply, prices, investments, negotiations with producing countries, and operations within the EC. Although its decisionmaking authority would be very small, the committee could have substantial influence in encouraging compromises and coordinating policies. The Commission also proposed extending crude oil import regulations to cover refined products and broadening the system of national export licenses to cover both crude oil and products.

Although some proposals were written with the United States in mind, the clauses dealing specifically with non-EC consuming countries are moderate in tone. They merely recommend more energy-related research and increased consultation. The proposals also recommend exploring the possibility of cooperative arrangements with the major oil-exporting states.

The EC Council will take up the Energy Commission's proposals at its next scheduled meeting in October. Although modifications are probable, Commission officials hope that the main points will be approved essentially as written.

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DOMESTIC ECONOMIC INDICATORS

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier
GNP*					
(Constant Market Prices)	Quarter				Previous Quarter
United States	73 II	0.8	5.1	6.4	2.5
Japan	73 I	3.6	9.8	16.0	15.2
West Germany	73 I	5.4	4.7	5.8	23.6
France	73 I	2.0	5.5	3.8	8.2
United Kingdom	73 I	1.5	3.2	7.1	6.2
Italy	73 I	0.8	3.1	5.2	3.4
Canada	73 I	2.9	6.3	8.0	12.1

WHOLESALE PRICES

(Industrial)					
United States	Jun 73	1.0	5.0	7.7	14.8
Japan	Jun 73	1.3	4.1	13.6	11.4
West Germany	Jun 73	0.6	4.7	6.7	6.8
France	Apr 73	0.8	6.2	12.0	20.2
United Kingdom	Jun 73	1.0	6.7	6.2	3.7
Italy	Apr 73	1.1	6.4	12.1	18.7
Canada	Apr 73	0.9	6.9	13.5	22.4

INDUSTRIAL PRODUCTION*

United States	Jun 73	0.2	5.5	9.6	6.1
Japan	May 73	2.7	9.4	19.4	23.3
West Germany	May 73	1.1	4.4	7.8	-4.3
France	May 73	4.2	7.9	10.6	10.7
United Kingdom	May 73	0.1	3.8	9.2	3.5
Italy	May 73	9.3	3.4	8.8	51.7
Canada	May 73	0.1	6.9	10.3	7.5

CONSUMER PRICES

United States	Jun 73	0.7	4.5	5.9	8.3
Japan	May 73	1.7	7.4	10.9	28.2
West Germany	Jun 73	0.7	6.2	7.9	8.5
France	May 73	0.5	6.0	7.2	8.9
United Kingdom	Jun 73	0.5	8.6	9.3	13.3
Italy	Jun 73	0.9	7.2	11.4	14.5
Canada	Jun 73	0.9	5.0	8.1	11.4

RETAIL SALES*

(Current Prices)

United States	Jun 73	-0.8	11.0	12.1	-6.1
Japan	Mar 73	4.0	12.9	24.8	45.2
West Germany	Mar 73	-5.7	9.1	5.9	14.2
France	Mar 73	4.1	6.3	7.0	6.7
United Kingdom	Apr 73	-7.2	9.6	11.2	-3.0
Italy	Feb 73	9.0	11.5	18.8	24.1
Canada	May 73	-3.0	10.5	10.5	1.6

MONEY SUPPLY*

United States	Jun 73	1.2	7.8	7.4	10.3
Japan	Apr 73	3.8	19.9	34.0	48.9
West Germany	May 73	-4.2	10.2	8.4	-13.6
France	Mar 73	0.8	12.5	10.0	-3.4
United Kingdom	Apr 73	2.2	12.2	13.1	19.1
Italy	Feb 73	2.1	20.1	18.7	21.5
Canada	May 73	2.3	14.1	17.5	20.3

MONEY-MARKET RATES

MONEY-MARKET RATES		Percent Rate of Interest				
		Representative Rates		12 Months Earlier	3 Months Earlier	1 Month Earlier
		Latest				
United States	Prime finance paper	Jul 27	8.13	4.75	6.75	7.63
Japan	Call money	Jul 21	7.25	4.25	5.92	6.83
West Germany	Interbank loans (3 months)	Jul 27	14.25	4.50	NA	13.75
France	Call money	Jul 21	8.00	3.50	7.82	7.82
United Kingdom	Local authority deposits	Jul 13	6.38	4.36	7.42	7.38
Canada	Finance paper	Jul 27	7.50	5.00	5.88	7.00
Euro-Dollars	Three-month deposits	Jul 27	11.19	5.69	8.25	9.06

*Seasonally Adjusted

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EXTERNAL ECONOMIC INDICATORS

		Average Annual Growth Rate Since			
Latest Period	Percent Change from Previous Period	1970	1 Year Earlier		3 Months Earlier
EXPORT PRICES (US \$)					
United States	May 73	3.1	8.3	13.7	18.9
Japan	May 73	1.5	11.9	20.7	64.0
West Germany	Apr 73	0.9	10.9	13.0	64.5
France	Mar 73	8.9	12.8	20.6	70.4
United Kingdom	May 73	2.5	10.4	6.2	34.7
Italy	Mar 73	0.9	8.1	8.1	30.4
Canada	Apr 73	3.5	8.0	12.5	32.8

EXPORT PRICES
(National Currency)

United States	May 73	3.1	8.3	13.7	18.9
Japan	May 73	1.3	0.9	4.8	13.5
West Germany	Apr 73	0.7	1.2	1.3	4.2
France	Mar 73	1.5	4.9	8.3	12.3
United Kingdom	May 73	0.6	8.4	9.6	15.3
Italy	Mar 73	0.8	4.9	6.5	24.1
Canada	Apr 73	3.6	4.8	13.0	33.4

IMPORT PRICES
(National Currency)

United States	May 73	1.2	9.9	17.4	43.1
Japan	May 73	2.5	2.8	14.1	13.2
West Germany	Apr 73	1.3	0.3	7.2	5.3
France	Mar 73	1.9	2.5	0.4	-16.3
United Kingdom	May 73	3.5	11.1	28.1	38.8
Italy	Mar 73	3.4	7.5	14.0	35.2
Canada	Mar 73	3.4	4.0	6.2	18.4

OFFICIAL RESERVES

OFFICIAL RESERVES		Billion US \$			
	Latest Period			1 Year	3 Months
	End of	June 1970		Earlier	Earlier
United States	May 73	14.0	16.3	13.3	14.0
Japan	Jun 73	15.2	4.1	15.8	18.1
West Germany	May 73	32.2	8.8	19.9	29.5
France	Jun 73	10.2	4.4	9.4	11.2
United Kingdom	Jun 73	7.0	2.8	8.9	6.0
Italy	Apr 73	6.4	4.7	6.5	5.8
Canada	Jun 73	5.9	4.3	6.2	6.0

EXPORTS*
(f.o.b.)

EXPORTS ^a		Cumulative - (Million US \$)			
(f.o.b.)	Latest Period	Million US \$		1973	1972
United States	Jun 73	5,778	Jan-Jun	32,289	22,986
Japan	Jun 73	2,854	Jan-Jun	18,626	13,068
West Germany	Jun 73	5,088	Jan-Jun	29,916	22,498
France	Jun 73	3,135	Jan-Jun	16,982	12,821
United Kingdom	Jun 73	2,512	Jan-Jun	13,636	11,716
Italy	May 73	1,788	Jan-May	7,542	7,352
Canada	May 73	2,009	Jan-May	9,831	7,949

IMPORTS*
(f.o.b.)

IMPORTS (f.o.b.)	Latest Period	Cumulative (Million US \$)		
		Million US \$	1973	1972
United States	Jun 73	5,793	Jan-Jun 33,099	25,114
Japan	Jun 73	2,732	Jan-Jun 13,765	8,719
West Germany	Jun 73	4,039	Jan-Jun 23,408	18,305
France	Jun 73	3,038	Jan-Jun 16,370	12,371
United Kingdom	Jun 73	2,867	Jan-Jun 15,523	12,231
Italy	May 73	2,118	Jan-May 8,508	6,774
Canada	May 73	1,906	Jan-May 9,110	7,521

TRADE BALANCE*
(f.o.b./i.o.b.)

TRADE BALANCE ^a		Cumulative (Million US \$)			
(f.o.b./i.o.b.)	Latest Period	Million US \$	1973		1972
United States	Jun 73	-15	Jan-Jun	-819	-2,128
Japan	Jun 73	122	Jan-Jun	2,862	4,349
West Germany	Jun 73	1,050	Jan-Jun	6,507	4,193
France	Jun 73	97	Jan-Jun	612	449
United Kingdom	Jun 73	-358	Jan-Jun	-1,887	-515
Italy	May 73	-353	Jan-May	-966	578
Canada	May 73	103	Jan-May	721	428

EXCHANGE RATES (Spot Rate)

As of 27 Jul 73	US \$ Per Unit	Percent Change from			
		Dec 66	18 Dec 71	19 Mar 73	20 Jul 73
Japan (Yen)	0.0038	36.50	15.98	-0.97	-0.08
West Germany (Deutsche Mark)	0.4346	72.87	40.06	22.73	0.30
France (Franc)	0.2465	22.09	25.19	11.84	-0.28
United Kingdom (Pound Sterling)	2.5075	-10.14	-3.76	1.89	-1.28
Italy (Lira)	0.0017	7.31	-0.12	-2.94	-0.06
Canada (Dollar)	1.0000	8.41	0.22	0.23	-0.11

TRADE-WEIGHTED EXCHANGE RATES

As of 27 Jul 73	Percent Change from			
	Dec 66	18 Dec 71	19 Mar 73	20 Jul 73
United States	-20.65	-11.01	-4.18	0.20
Japan	22.50	8.63	-3.42	0.05
West Germany	35.35	18.12	13.02	0.39
France	-9.56	3.68	1.23	-0.22
United Kingdom	-34.12	-19.86	-5.41	-1.33
Italy	-23.04	-21.74	-14.82	0.04
Canada	3.86	-2.66	-1.00	-0.04

*Seasonally Adjusted

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